

AUDIT REPORT	Date: 31.12.2025	Prepared by: Maarja Kilter (Head on Internal Audit Department)	Reference nr: A1-6
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Title	Audit on the Use of Modernisation Fund Support in Estonia (costs up to 31.12.2024)
Objective	The audit was conducted in accordance with Article 16(4) of Implementing Regulation (EU) 2020/1001, which requires Member States to carry out an audit every two years on the use of amounts paid from the Modernisation Fund by the Member State or the scheme managing authority to project proponents or final recipients of the Modernisation Fund support.
Scope	The audit covers the use of support amounts paid from the Modernisation Fund to project applicants or final recipients during the period 1 January 2023 – 31 December 2024. The audit examines eligible costs related to the implementation of projects by final recipients (Muhu Municipal Government, Hiiumaa Municipal Government, Saaremaa Municipal Government, Põltsamaa Municipal Government, Riigi Kinnisvara AS), the administrative costs of implementing measures by the State Shared Service Centre, and the costs of dual-system electric trains incurred following the tender process conducted by AS Eesti Liinirongid under the respective procurement contract. The scope of the audit also includes verifying the compliance of public procurement procedures related to the support with applicable requirements.
Scope limitation	<p>The audit does not include:</p> <ul style="list-style-type: none"> ➤ An assessment of the Ministry of Climate's management and control systems (MCS) for submitting Modernisation Fund investment proposals and reporting; ➤ An assessment of the MCS of responsible ministries in developing regulations for measures financed by the Modernisation Fund, consolidating reports on the use of funding, and submitting them to the Ministry of Climate; ➤ An assessment of the MCS of the State Shared Service Centre in processing project applications and reporting for these measures; ➤ An evaluation of the impact of investments on energy efficiency and the modernisation of the energy system.

Summary

The audit was carried out in accordance with the principles and guidance set out in the Global Internal Audit Standards Framework issued by The Institute of Internal Auditors (IIA), including Domain II: Ethics and Professionalism, which defines the ethical principles and professional conduct requirements for internal auditors. Throughout the engagement, we adhered to the principles of independence, objectivity, and ethical conduct, while considering the expectations of the audit client. Although no external quality assessments have been performed regarding the Ministry of Climate's internal audit activities, we consciously align our work with the International Standards for the Professional Practice of Internal Auditing and apply appropriate ethical and professional practices.

In accordance with the Internal Audit Department's Statute No. 1-2/23/338 dated 09.08.2023, the following principles apply: (1) The Internal Audit Department is a structural unit of the Ministry of Climate reporting directly to the Minister. (4) The Department is functionally independent from other structural units of the Ministry and from agencies within its area of governance. (5) The Department does not participate in the management processes of the auditee, nor in the development or implementation of control procedures, and does not assume responsibility for management decisions when performing assurance or advisory engagements. The Audit Lead has confirmed their objectivity with respect to the internal audit subject under review and their obligation to immediately inform the head of the institution if a conflict arises with the signed objectivity confirmation and/or if a potential risk to objectivity emerges.

In preparing the report, we relied on the documentation available to us, as well as the information and explanations provided by the auditee during the audit. We conclude that all data submitted to us, along with other oral and written information, accurately reflect the activities performed and correspond to reality, and are sufficient for forming an opinion. If additional information, not disclosed or unknown to the auditor, had been available, the auditor's conclusions might have been different.

We thank the auditees for their pleasant cooperation.

Maarja Kilter (CGAP), /digitally signed/

Introduction

The Modernisation Fund is an EU financial instrument established for the period 2021–2030 to support the modernisation of energy systems and the improvement of energy efficiency in 13 Member States with the lowest average income. The Fund was created under the EU Emissions Trading System (ETS) and is financed through revenues from the auctioning of emission allowances. Its purpose is to help lower-income Member States meet their 2030 climate and energy targets, as outlined in the European Green Deal and the European Green Deal Investment Plan.

The legal framework of the Fund includes the ETS Directive (notably Articles 10 and 10d) and the Implementing Regulation on the Modernisation Fund, both last amended in 2023 and applicable from 2024. In addition, the European Investment Bank (EIB), in consultation with the European Commission, has published an Assessment Guidance Document. Investments financed by the Fund must align with the objectives of the ETS Directive, the European Green Deal, the European Climate Law, and the long-term goals of the Paris Agreement.

The Modernisation Fund is coordinated by the European Investment Bank in cooperation with the European Commission.

The use of Modernisation Fund resources is governed by European Union legislation:

- Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC;
- Commission Implementing Regulation (EU) 2020/1001 of 9 July 2020 laying down detailed rules for the application of Directive 2003/87/EC of the European Parliament and of the Council as regards the operation of the Modernisation Fund supporting investments to modernise the energy systems and to improve energy efficiency of certain Member States and its amendment (2023/2606).

The requirements for the use and reporting of Modernisation Fund resources in Estonia are established by:

- [Atmospheric Air Protection Act](#) (AÕKS), §165¹ Modernisation Fund, which stipulates, among other things, that the allocation of Modernisation Fund resources and the ministers responsible for their use are determined in the State Budget Strategy (RES). For the implementation of measures specified in the RES, the minister responsible for the use of resources may establish, by regulation, the conditions and procedure for implementing the respective measure. Pursuant to subsection 51 of this paragraph, the Ministry of Climate submits the allocation of Modernisation Fund resources for assessment and approval to the European Investment Bank and the Investment Committee in accordance with Commission Implementing Regulation (EU) 2020/1001.
- Government of the Republic Regulation No. 25 of 10 March 2022 „[General Conditions for the Use and Reporting of Modernisation Fund Resources](#).“

Modernisation Fund-supported programmes in Estonia

1. On 14 September 2021, Estonia submitted two priority investment applications, both approved by the European Commission. The EIB issued a positive confirmation for both on 11 October 2021.

➤ **Programme for improvement of energy efficiency and renewable energy use in public sector buildings (MF 2021-2 EE 0-001)**

The objective is to improve the energy efficiency of public sector buildings and thereby reduce greenhouse gas emissions from their use. With the support of the Modernisation Fund, energy efficiency targets are planned to be achieved for 255,000–425,000 m² of floor area during 2021–2030. The programme is implemented through two sub-programmes: one focusing on central government buildings and the other on local government buildings. Activities under this programme are planned to be supported with €170 million from the Modernisation Fund during 2021–2030.

The form of financing is grant, which will be given for energy saving investments, renovation or in some case replacement and accompanying construction works.

From the Programme for improvement of energy efficiency and renewable energy use in public sector buildings, the following sub-measures and related project costs, as well as administrative costs for implementing the measures, are included within the scope of the audit:

a) **Costs of projects supported under Regulation No. 36 of the Minister of Finance of 26 September 2023 „Conditions and Procedure for the Use of Support from the Modernisation Fund for Improving the Energy Efficiency of Local Government Buildings“.**

The first application round was announced in October 2023 with a budget of €40 million and implementation costs of €142,000. The deadline for submitting applications was 31 January 2024. As a result of the evaluation, 39 applications were approved, with a total support allocation of €30,972,078.71. Projects are currently being implemented.

The second application round, with a budget of €45 million and implementation costs of €150,000, was announced in March 2025, and the deadline for submitting applications was 31 July 2025.

As of 31 December 2024, funding from the Modernisation Fund has been disbursed for the following projects

Project name	Support rate	Amount paid from the Modernisation Fund to final recipients up to 31 December 2024 (euros)
Kliima2.8.01.23-0039 Improvement of energy efficiency in Muhu Sports Hall (Muhu Municipal Government)	65%	5947,50
Kliima2.8.01.23-0026 Improvement of energy efficiency in the Käina Hobby and Cultural Centre building (Hiiumaa Municipal Government)	63%	69230,98
Kliima2.8.01.24-0063 Reconstruction of Orissaare Cultural Centre (Saaremaa Municipal Government)	69%	30304,80
Kliima2.8.01.24-0060 Improvement of energy efficiency in the educational building at Lille Street 2/3 in Põltsamaa (Põltsamaa Municipal Government)	67%	156519,57
TOTAL		262002,85

b) **Costs of projects supported under Regulation No.36 issued by the Minister of Public Administration on 5 August 2022 „Conditions and Procedures for the Use of the Modernisation Fund Support for Energy Efficiency Improvements in Central Government Buildings“.**

First application round: the budget for the round was 28 million euros, the deadline for submitting applications was 31 January 2023. Two applications were submitted, both were approved. A total of 20.6 million euros of support was allocated to the applications.

Second application round: the budget for the round was 27 million euros, the deadline for submitting applications was 31 January 2024. Two applications were submitted, one of them was approved. A total of 0.9 million euros of support was allocated to this application.

Third application round: the budget for the round is 24 million euros, the deadline for submitting applications was 31 January 2025.”

As of 31 December 2024, funding from the Modernisation Fund has been disbursed for the following projects:

Project name	Support rate	Amount paid from the Modernisation Fund to final recipients up to 31 December 2024 (euros)
Kliima2.8.01.23-0008 Reconstruction of the office building at Lasnamäe Street 2 (Riigi Kinnisvara AS), VAT is not eligible	100%	74550,00
Kliima2.8.01.23-0010 Energy-efficient renovation of Tartu Courthouse (Riigi Kinnisvara AS), VAT is not eligible	100%	3900107,83
TOTAL		3974657,83

c) **Administrative Costs for Implementing Sub-Measures of the Programme for improvement of energy efficiency and renewable energy use in public sector buildings.**

The State Shared Service Center (<https://www.rtk.ee/en>), which is a government agency under the administration of the Ministry of Finance, is responsible for carrying out the open call for proposals and for supervision of the implementation of the projects and payments.

Administrative costs for implementing the measure under the Regulation No. 36 of the Minister of Finance of 26 September 2023, “Conditions and Procedures for the Use of Support from the Modernisation Fund for Improving the Energy Efficiency of Local Government Buildings”, and related orders:

- Order of the Minister of Finance, 10 October 2023, No. 155: I confirm the indicative financial volume for the 2023 application round as €40,000,000. I confirm the administrative costs for the measure implementer for conducting the application round as €142,000 in total.
- Order of the Minister of Regional Affairs and Agriculture, 27 February 2025, No. 47 (1.1-2/47): I confirm the financial volume for the 2025 application round as €45,000,000. I confirm the administrative costs for the measure implementer for conducting the application round as €150,000 in total.

Administrative costs for implementing the measure under the Regulation Regulation No. 36 issued by the Minister of Public Administration on 5 August 2022 „Conditions and Procedures for the Use of the Modernisation Fund Support for Energy Efficiency Improvements in Central Government Buildings, and related orders:

- Order of the Minister of Public Administration, 19 September 2022, No. 175: Financial volume for the first application round: €28,000,000; administrative costs for the measure implementer for conducting the application round: €104,200 in total (administrative costs for implementing the measure: €8,200 (2022), €31,000 (2023), €32,000 (2024), €33,000 (2025)).
- Order of the Minister of Finance, 17 October 2023, No. 158: Financial volume for the second application round: €27,000,000; administrative costs for the measure implementer for conducting the application round: €134,000 in total.
- Order of the Minister of Finance, 20 September 2024, No. 105: Financial volume for the third application round: €24,000,000; administrative costs for the measure implementer for conducting the application round: €90,000 in total.

As of 31 December 2024, funding from the Modernisation Fund has been disbursed to the State Shared Services Centre for the following costs (code 9R40-MF00-08112HALD):

Year	Description of Costs	Amount paid from the Modernisation Fund to final recipients up to 31 December 2024 (euros)
2023	Administrative costs for measure implementation (partial salaries, taxes, etc.)	8790,42
2024	Administrative costs for measure implementation (partial salaries, taxes, etc.)	77986,05
TOTAL		86776,47

- **Energy-efficient low-emission public transport programme (MF 2021-2 EE 0-002)**
The aim is to improve the energy efficiency of Estonia’s public transport by supporting investments that accelerate the transition to vehicles using renewable energy or hydrogen. The programme contributes to the Transport and Mobility Master Plan 2021-2035 and to the National Energy and Climate Plan 2030. Activities include acquiring an environmentally friendly and energy-efficient ferry for the Virtsu–Kuivastu route, modernising Estonia’s train fleet by purchasing 10 electric passenger trains with the Fund’s support, and promoting the use of electric buses and/or trams in cities. These activities are planned to be supported with €130 million from the Modernisation Fund during 2021–2030.
- As of 31 December 2024, expenses have been incurred in connection with the procurement of electric trains. On 6 September 2022, the Government of the Republic of Estonia decided at a cabinet meeting to approve the acquisition of 10 new dual-system electric trains financed from the Modernisation Fund. The public procurement reference number is 217993 “[Purchase of dual-system electric trains](https://ted.europa.eu/et/notice/-/detail/121993-2020)” (restricted procedure; the international notice is published at <https://ted.europa.eu/et/notice/-/detail/121993-2020>). The contract with the successful bidder was signed on 19 December 2022. The trains are currently in production and according to the signed contract, the final handover of 10 electric trains will take place in March 2026.

As of 31 December 2024, funding has been paid to AS Eesti Liinirongid for the following costs:

Description of Costs	Support rate	Amount paid from the Modernisation Fund to final recipients up to 31 December 2024 (euros)
Execution of Contractual Payments under the Procurement Contract Resulting from the Public Tender 'Purchase of Dual-System Electric Trains' (Reference No. 217993), Concluded with the Škoda Transportation a.s. and Škoda Vagonka Consortium	100%	21702517,00

Payments to final beneficiaries under these two programmes have been made up to 31 December 2024 and are included within the scope of this audit (see Annex 1 for details).

- On 13 February 2024, Estonia submitted an application for Phase 2 of the Programme for Increasing Energy Efficiency and Renewable Energy Use in Public Sector Buildings (amounting to €250 million). The EIB issued a positive financing decision on 12 March 2024. No payments to final beneficiaries have been made from this funding.

Final Report

Programme for improvement of energy efficiency and renewable energy use in public sector buildings	Sub-measure: Regulation No. 36 of the Minister of Public Administration on 5 August 2022 „Conditions and Procedures for the Use of the Modernisation Fund Support for Energy Efficiency Improvements in Central Government Buildings“.
Project submitter / final recipient (name of institution)	Riigi Kinnisvara AS
Project number	Kliima2.8.01.23-0008
Project title	Reconstruction of the office building at Lasnamäe Street 2 (<i>Lasnamäe tn 2 büroohoone rekonstrueerimine</i>)
Decision forming the basis for Modernisation Fund financing	Decision of the Head of the Grants Implementation Department of the State Shared Services Centre, 06 April 2023, No. 11.2-54/23/569 „Approval of the application submitted by Riigi Kinnisvara AS“.
Project eligibility period	31.05.2023 - 31.12.2027
Total amount of eligible project costs (in euros)	9 155 160,00 (100%)
Maximum amount of Modernisation Fund financing (in euros)	9 155 160,00 (100%)
Minimum amount of co-financing (in euros)	0
Audited period and amount of Modernisation Fund financing up to 31.12.2024 (in euros)	74550,00
Amount of identified non-eligible financing (in euros)	N/A

Audited cost documents

Cost document number and date	Submitter of the cost document	Description of the expense	Total amount of the cost document (EUR, including VAT)	Payment order for the recipient's payment to the service provider	Eligible amount (EUR)	Paid amount of MF funding to final recipient (EUR, with rate 100%)	MF funding payment order number and date	Procurement
MA23-0549 (17.07.2023)	AS Utilitas Tallinn	Construction (including owner's supervision), first installment for connection to district cooling	5940,00 (VAT 990,00)	No. 01-1000F1100000642023 (31.07.2023) in the amount of 5940,00 euros	4950,00	4950,00	PO21850 (06.09.2023)	No procurement was carried out, connection Agreement No. 23J010941 [district cooling].
MA24-0386 (10.05.2024)	AS Utilitas Tallinn	Construction (including owner's supervision), fee for connection to district heating	84912,00 (VAT 15312,00)	No. 01-1000F1100000252024 (24.05.2024) in the amount of 84912,00 euros	69600,00	69600,00	PO29583 (04.06.2024)	No procurement was carried out, connection Agreement No. 24U012456 [district heating]

Auditor's Summary Opinion

Based on the procedures carried out during the audit, it can be concluded that the use of the amounts paid from the Modernisation Fund to the final recipient, within the scope of the audit, has been compliant. The reimbursed costs meet the requirements of European Union and Estonian national legislation and are directly related to achieving the objectives and implementing the activities planned in the project.

All verified costs are supported by proper and relevant source documents confirming their link to the project and compliance with eligibility conditions. Transactions reflect actual circumstances; costs are accurately and fully recorded in the accounts, duly paid, and correspond to the nature and amounts of the payment transactions.

The procurement procedures have, to a significant extent, complied with applicable public procurement requirements, and no violations or other deficiencies were identified

during the audit.

Project-related publicity and visibility activities have been carried out in accordance with EU visibility and communication requirements.

The beneficiary has also ensured the retention of all project documents and data for at least five years after the last payment, in line with the obligation set out in Article 16(5) of Regulation (EU) 2020/1001.

Within the audit scope, no breaches, deficiencies, or other circumstances were identified that would call into question the justification, accuracy, or compliance of the costs with the rules governing the use of the support. In conclusion, it can be confirmed that the funds used within the project have been managed transparently, purposefully, and in accordance with applicable requirements.

Compliance of Project Planning with Modernisation Fund Objectives

Conclusion
(YES / NO
/ N/A)

Auditor verified:

➤ Whether the use of funding or the project (regardless of whether implemented by the final recipient or by the State Shared Services Centre as the implementing body) complies with the eligibility criteria (in accordance with Directive 2003/87/EC Article 10d, Regulation (EU) 2020/1001, national support conditions and the financing decision).

Explanation: The target of the project is the building (Building Register Code 120543326) located at Lasnamäe 2, Tallinn (cadastral number 78403:301:0240), constructed in 2009. The building's energy performance class is E what does not meet modern building standards. The building currently uses local gas heating; the ventilation and cooling systems are approaching their critical service life, and the building automation requires upgrading.

The objective is to consolidate the state IT agencies in one location. The IT building would address sector-specific needs, create synergy, and generate savings through shared use of space. The application includes a confirmation letter submitted on 31 December 2023, according to which an authorized representative of Riigi Kinnisvara AS confirmed that, prior to the implementation of the project, the building used by the central government entity complies with the requirements set out in § 3(4) of the regulation; the applicant has the financial resources to implement the application submitted under the measure; and, based on the circumstances known at the time of submission, the applicant does not intend to lease the building to an entity outside the central government within five years.

Project objective is to upgrade the existing office building into a modern nearly zero-energy building. The building will be converted to district heating and district cooling. The heating system will be partially refurbished. Ventilation units will be replaced, and ventilation ductwork will be repaired. The transition from local cooling to district cooling will be implemented along with the reconstruction of equipment and piping. Building automation and lighting control will be modernized. Windows will be replaced. As the building will be constructed using modern high-quality technologies and materials, its good condition will be guaranteed for at least 50 years. The total useful gross floor area of the building at the time of application was 7,629.3 m².

The audit covers costs related to design and construction works eligible under § 5(3) of Regulation No. 36 of the Minister of Public Administration, dated 05.08.2022, "Conditions and Procedures for the Use of the Modernisation Fund Support for Energy Efficiency Improvements in Central Government Buildings." According to this provision, eligible costs for energy efficiency works include expenses for energy-saving measures listed in the regulation established under § 66(6) of the Building Code, as well as costs related to building reconstruction and partial demolition, together with investments inseparably linked to or required for these works, including those necessary to ensure indoor climate requirements. The cost of partial demolition is eligible up to ten percent of the maximum amount of support indicated in the decision approving the grant application. Other eligible costs include expenses for equipment and installations related to energy use or indoor climate and their installation, costs of connecting to utilities necessary for the functioning of the building, costs of renewable energy production equipment and their installation, costs necessary for energy storage, and costs of design and construction supervision required for carrying out the works mentioned above.

The implementing entity for the project is AS Riigi Kinnisvara. The project will be carried out during the period from 31 May 2023 to 31 December 2027. The total project cost stated in the application is €19,373,092.00, including eligible costs of €9,155,160.00. The budget included the following planned expenses: Construction (including owner's supervision) €7,754,640.00 (84.70%) and design (including expert review) €1,400,520.00 (15.30%).

YES

<p>Based on the information provided and the planned activities, the project complies with the eligibility criteria set out in Article 10d of Directive 2003/87/EC, Regulation (EU) 2020/1001, national support conditions, and the financing decision.</p>	
<p>➤ Whether the objective of the final recipient's activities is aimed at modernising energy systems or improving energy efficiency (including the objective of the State Shared Services Centre's activities, which—based on the support conditions—consists of processing grant applications, handling payment requests, making disbursements, and monitoring projects, thereby contributing to the achievement of the measure's objectives).</p> <p>Explanation: Together with the application, the following documents were submitted: "Lasnamäe Street 2, Tallinn. Simplified Energy Audit" (January 2023) and "Lasnamäe Street 2, Tallinn. Forecast Calculation of Changes in Energy Use and Reduction of Greenhouse Gas Emissions" (28 February 2023), which support the objectives of the application.</p> <p>Project objective is to upgrade the existing office building into a modern nearly zero-energy building. The building will be converted to district heating and district cooling. The heating system will be partially refurbished. Ventilation units will be replaced, and ventilation ductwork will be repaired. The transition from local cooling to district cooling will be implemented along with the reconstruction of equipment and piping. Building automation and lighting control will be modernized. Windows will be replaced.</p> <p>The application includes the following sector indicators:</p> <ul style="list-style-type: none"> ➤ the reduction in energy supplied to the building (MWh/year) from 909,00 (initial) to 725,00 (target); ➤ the reduction in greenhouse gas emissions (t CO₂ equivalent/year) from 377,00 (initial) to 253,00 (target); ➤ the useful gross floor area under central government use that does not meet nearly zero-energy building requirements before reconstruction: 4729,50 m² (initial); ➤ the useful gross floor area under central government use that meets nearly zero-energy building requirements after reconstruction: 7629,30 m² (target); ➤ and the number of buildings where energy efficiency is improved and renewable energy use is promoted through reconstruction: 1 (initial), 1 (target). <p>The project's objective and planned activities are clearly aimed at improving energy efficiency. They comply with the eligibility conditions for energy efficiency measures and contribute to achieving the objectives of the Modernisation Fund in accordance with Regulation (EU) 2020/1001 and national support conditions. Therefore, it can be concluded that the final recipient's activities are consistent with the objectives of modernising energy systems and improving energy efficiency.</p>	<p>YES</p>
<p>➤ Whether the activities of the final recipient support the objectives of the EU Green Deal (e.g., reduction of carbon emissions, clean energy, climate neutrality).</p> <p>Explanation: The project application specifies the following target indicators:</p> <ul style="list-style-type: none"> ➤ the reduction in energy supplied to the building (MWh/year) from 909,00 (initial) to 725,00 (target); ➤ the reduction in greenhouse gas emissions (t CO₂ equivalent/year) from 377,00 (initial) to 253,00 (target); ➤ the useful gross floor area under central government use that does not meet nearly zero-energy building requirements before reconstruction: 4729,50 m² (initial); ➤ the useful gross floor area under central government use that meets nearly zero-energy building requirements after reconstruction: 7629,30 m² (target); ➤ and the number of buildings where energy efficiency is improved and renewable energy use is promoted through reconstruction: 1 (initial), 1 (target). <p>The activities planned by the final recipient support the objectives of the European Union Green Deal, including the reduction of carbon emissions, the adoption of clean energy, and progress towards climate neutrality. The project will deliver measurable improvements in environmental performance and energy efficiency, fully aligned with the strategic targets of the EU Green Deal.</p>	<p>YES</p>
<p>➤ Whether the documents forming the basis for the use of the support by the final recipient (e.g., applications, financing decisions, contracts or other agreements) include clear performance indicators (such as energy savings in MWh, reduction of CO₂ emissions) and a description of the measurement methodology, ensuring transparent, reliable and Modernisation Fund-compliant information on the achievement of results.</p> <p>Explanation: The project is currently being implemented; the actual results and achievement of objectives can only be assessed some time after the project</p>	<p>YES</p>

<p>has been completed. The project application specifies the following target indicators:</p> <ul style="list-style-type: none"> ➤ the reduction in energy supplied to the building (MWh/year) from 909,00 (initial) to 725,00 (target); ➤ the reduction in greenhouse gas emissions (t CO₂ equivalent/year) from 377,00 (initial) to 253,00 (target); ➤ the useful gross floor area under central government use that does not meet nearly zero-energy building requirements before reconstruction: 4729,50 m² (initial); ➤ the useful gross floor area under central government use that meets nearly zero-energy building requirements after reconstruction: 7629,30 m² (target); ➤ and the number of buildings where energy efficiency is improved and renewable energy use is promoted through reconstruction: 1 (initial), 1 (target). <p>According to the decision approving the application, the beneficiary is obliged to submit, via the Structural Funds Register, by 31 December 2032, annual data for four full years following the reconstruction of the building, demonstrating the achievement of project results. This includes information on the building's energy consumption (including energy savings), greenhouse gas emissions, and renewable energy production. The documents submitted by the final recipient of the support define clear performance indicators and reporting obligations together with a measurement methodology that enables transparent assessment of the achievement of results in accordance with the conditions of the Modernisation Fund. Actual effectiveness can be assessed after the submission of the reports.</p>	
<ul style="list-style-type: none"> ➤ Has the planning of the use of funding (the project) complied with climate and environmental criteria (e.g., avoidance of significant harm, DNSH), and are these documented and, where necessary, justified. <p>Explanation: The Estonian Government Regulation No. 25 of 10 March 2022 “General Conditions for the Use and Reporting of Modernisation Fund Resources” does not provide for a requirement to submit the results of an assessment regarding compliance of the supported activity with the “do no significant harm” principle or the assurance of climate resilience of the supported infrastructure. Similarly, the Regulation No 36 of the Minister of Public Administration, dated 5 August 2022 does not provide for a requirement to submit the results of an assessment regarding compliance of the supported activity with the “do no significant harm” principle or the assurance of climate resilience of the supported infrastructure.</p> <p>The Modernisation Fund Assessment Guidance Document (p. 9) states: <i>“Do no significant harm” principle (applicable as of 1 January 2025). In line with Article 10f of the ETS Directive, from 1 January 2025, the BMS and the EC shall use the revenues generated from the auctioning of allowances referred to in Article 10(1), third (Original 2%) and fourth subparagraphs (New 2.5%) of this Directive in accordance with the “do no significant harm” criteria set out in Article 17 of Regulation (EU) 2020/852, where such revenues are used for an economic activity for which technical screening criteria for determining whether an economic activity causes significant harm to one or more of the relevant environmental objectives have been established pursuant to Article 10(3), point (b), of that Regulation. Further guidance on how the BMS will have to demonstrate compliance with Article 10f of the ETS Directive will be agreed and communicated at a later stage.”</i></p> <p>The ‘Do No Significant Harm’ (DNSH) principle became mandatory from 1 January 2025. At the time of project planning, this requirement was not applicable; therefore, no non-compliance was identified. Future projects will need to comply with DNSH requirements effective from 1 January 2025.</p>	N/A
<ul style="list-style-type: none"> ➤ Has compliance with the European Union State aid rules and the provisions set out in Chapter 6 “State Aid” of the Estonian Competition Act been ensured. <p>Explanation: Pursuant to §1(3) of Regulation No. 36 of the Minister of Public Administration, dated 5 August 2022, the support does not constitute State aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union. The beneficiary, a public limited company wholly owned by the Republic of Estonia, performs a public task of managing state real estate and is neither a recipient of State aid nor of de minimis aid. The financing arrangement complies with EU State aid rules and Chapter 6 “State Aid” of the Estonian Competition Act. The measure is designed to exclude any selective economic advantage, is limited to the renovation of central government buildings for energy efficiency purposes, and does not distort competition or affect trade between Member States.</p>	N/A

<p>Scope of activities and exclusions:</p> <ul style="list-style-type: none"> ➤ Does the use of funding exclude investments in energy generation installations operating on fossil fuels; the use of coal, lignite, or other solid fossil fuels; ➤ For activities related to fossil gas: is there evidence that the case constitutes an exception (e.g., a notification coordinated with the Commission), and are these activities temporary, transitional solutions, or of limited scope. <p>Explanation: Project objective is to upgrade the existing office building into a modern nearly zero-energy building. The building will be converted to district heating and district cooling. The heating system will be partially refurbished. Ventilation units will be replaced, and ventilation ductwork will be repaired. The transition from local cooling to district cooling will be implemented along with the reconstruction of equipment and piping. Building automation and lighting control will be modernized. Windows will be replaced. The planned activities do not involve fossil fuel-based energy generation or the use of solid fossil fuels. Consequently, the use of funding fully aligns with the objectives of the EU Green Deal and the Modernisation Fund regarding energy efficiency.</p>	N/A
<p>Actual Implementation of Activities and Achievement of Impacts (exclusion of activities: the auditor does not perform or commission an energy audit or CO₂ reduction calculations)</p>	<p>Conclusion (YES / NO / N/A)</p>
<p>Auditor verified:</p> <ul style="list-style-type: none"> ➤ whether the activities of the final recipients comply with the project description, the terms of the agreement or other foundational financing document, and with the purpose of the funding. <p>Explanation: The project will be implemented during the period from 31 May 2023 to 31 December 2027. The budget included the following costs: Construction (including owner supervision) €7,754,640.00 (84.70%) and design (including expert review) €1,400,520.00 (15.30%). The main activities planned in the application were as follows: renovation of the existing office building into a modern nearly zero-energy building; transition of the building to district heating and district cooling; partial refurbishment of the heating system; replacement of ventilation units and refurbishment of ventilation ducts; transition from local cooling to district cooling, including reconstruction of equipment and piping; upgrade of building automation and lighting automation; replacement of windows.</p> <p>Within the scope of the audit, the following planned activities have been carried out:</p> <ul style="list-style-type: none"> ➤ A connection contract No. 23J010941 dated 10 July 2023 has been concluded with AS Utilitas Tallinn for connecting the existing building at Lasnamäe Street 2, with a contractual maximum cooling capacity of 500 kW, to the district cooling network operated by Utilitas, in accordance with the technical conditions issued by Utilitas, in the amount of €49,500 excluding VAT (including readiness for cooling service at the connection point). ➤ A connection contract No. 24U012456 dated 9 May 2024 has been concluded with AS Utilitas Tallinn for connecting the existing office building at Lasnamäe Street 2, with a total heat load of 0.9 MW, to the district heating network owned by AS Tallinna Soojus, in accordance with HeatConsult OÜ's working design No. 23031, in the amount of €69,600 excluding VAT (including design of the district heating pipeline up to the connection point and construction of the pipeline up to the connection point by no later than 1 September 2027). <p>AS Utilitas Tallinn is the district heating network operator in Tallinn and the owner and service provider of the district cooling network in Tallinn. The connection is made as their standard service, which includes the development of the technical solution, construction of pipelines, and installation of the connection point. RKAS AS does not order separate construction works from a third party but purchases the connection service from the network operator. Tallinn City Council Regulation No. 9 of 18 May 2017 on the boundaries of the district heating area of Tallinn, the conditions and procedure for connecting to and disconnecting from the district heating network, general quality requirements for district heating, and the network operator's development obligation – Riigi Teataja (§ 2(3–4)) and the District Heating Act (KKütS §§ 10–12) stipulate that the connection is made through the network operator and that the network operator has the right to set the connection conditions and fees. District cooling is not regulated by a separate law, but the service is based on the network operator's infrastructure, for which there is no alternative provider.</p> <p>A public procurement refers to the purchase of goods, the ordering of services, obtaining a design concept, commissioning construction works, or concluding a concession contract. The subject of a connection agreement is generally not a good, a service, construction work, or a concession; therefore, such an</p>	YES

<p>agreement does not constitute a procurement contract and is not subject to the Public Procurement Act.</p> <p>Riigi Kinnisvara AS additionally explained 31.12.2025: The contract No 24U012456 was concluded with AS Utilitas Tallinn, which at the time (now removed from the register) was a district heating company and, in the context of the Public Procurement Act, qualifies as a utility sector contracting entity. Therefore, Riigi Kinnisvara AS commissioned the construction works in question from another contracting entity. The fact that activities related to district heating are considered part of the utility sector derives from §146 of the Public Procurement Act, and AS Utilitas Tallinn is explicitly listed as a district heating company even in the latest commented edition of the Act. The value of the concluded contract does not exceed the simplified procurement threshold for the utility sector (€300,000, RHS §14(1)(3)); therefore, this is also a procurement below the simplified threshold, meaning that a public procurement procedure under the Act was not required. The contract was concluded with AS Utilitas Tallinn, which could have carried out an off-register tender or price inquiry; however, in our view, they had no obligation to do so under the Act.</p> <p>Riigi Kinnisvara AS did not conduct a public procurement procedure under the Public Procurement Act for concluding the contract No 23J010941, as both the initial and actual contract value remained below the simplified procurement threshold (€60,000 excluding VAT, RHS §14(1)(2)). The contract essentially involved commissioning construction works. The agreement was concluded with AS Utilitas Tallinn, which could have carried out an off-register tender or price inquiry; however, in our view, similar to Riigi Kinnisvara AS, they had no obligation to do so under the Act.</p> <p>The auditor agrees with Riigi Kinnisvara AS's explanations. Therefore, within the scope of the audit, the final recipient's activities comply with the project description, the agreement, and the conditions of the funding documents, and ensure the implementation, documentation, and verifiability of the activities arising from the purpose of the funding.</p>	
<p>➤ whether the activities have been implemented within the prescribed timeframe and in accordance with the schedule presented in the application or other financing document, including any approved modifications.</p> <p>Explanation: The eligibility period of the project is from 31 May 2023 to 31 December 2027. The activities and costs within the scope of the audit have been carried out during the project's eligibility period (a connection contract No. 23J010941 dated 10 July 2023 was concluded with AS Utilitas Tallinn for connecting the building at Lasnamäe Street 2 to the district cooling network operated by Utilitas; a connection contract No. 24U012456 dated 9 May 2024 was concluded with AS Utilitas Tallinn for connecting the office building at Lasnamäe Street 2 to the district heating network owned by AS Tallinna Soojus). Therefore, the activities have been implemented within the prescribed timeframe and in accordance with the schedule presented in the application or other financing document, including any approved modifications.</p>	YES
<p>➤ whether the final recipients have achieved the results set out in the project, the agreement or other financing document (e.g., improvement in energy efficiency, MWh saved, reduction of CO₂ emissions), and whether the reported results are sufficiently substantiated / documented (where possible with photos, data records, etc.).</p> <p>Explanation: The project eligibility period is from 31 May 2023 to 31 December 2027. The project is currently being implemented. At the time of approval of the audit report, it is not possible to assess the achievement of the objectives set out in the application and the funding basis documents (including the reduction of energy supplied to the building (MWh/year) and the reduction of greenhouse gas emissions (t CO₂ eq/year)).</p> <p>The final recipient is obliged to submit, via the Structural Funds Register, by no later than 31 December 2032, annual data for four full years following the completion of the reconstructed building, regarding the achievement of project results on building energy consumption volumes (including energy savings), greenhouse gas emissions, and renewable energy production. The audit established that the activities have so far been implemented in accordance with the planned schedule and that the project has created all the prerequisites for achieving the objectives.</p>	N/A
Accounting	Conclusion (YES / NO / N/A)
Auditor verified:	
<p>➤ whether the accounting system of the final recipient enables direct reconciliation of the costs and revenues declared for the project / funding, and whether these costs and revenues have been systematically recorded using a specific numbering system.</p>	YES

<p>Explanation: The project's costs and revenues have been systematically recorded in the accounting system using a specific coding structure. The final recipient has distinguished the development project costs in the accounting records with a separate code 900703, ensuring a clear link between costs, revenues, and project activities (verified during the on-site procedure on 21 December 2025). The accounting system of the final recipient enables direct reconciliation of the costs and revenues declared for the project and funding. All actual costs and revenues have been systematically documented and linked to a specific code, which ensures traceability, verifiability, and a clear connection to the project's activities.</p>	
<p>➤ whether, in cases where costs are allocated across multiple projects, appropriate allocation keys reflecting the actual workload have been established and applied systematically and accurately.</p> <p>Explanation: The costs verified within the scope of the audit were not allocated across multiple projects (the audit covered AS Utilitas Tallinn invoices No. MA23-0549 (17 July 2023) and No. MA24-0386 (10 May 2024)). Since these costs are fully related to a single project activity (identified by code 900703), it was not necessary to establish separate allocation keys.</p>	N/A
<p>➤ whether clear accounting records have been maintained to prevent double reimbursement of costs, and whether cost documents are easily distinguishable (i.e., costs related to the use of the grant are clearly separated from other costs in the accounting system, as well as the cost and payment documents reflecting these costs from other documents).</p> <p>Explanation: The costs verified within the scope of the audit were not allocated across multiple projects (the audit covered AS Utilitas Tallinn invoices No. MA23-0549 (17 July 2023) and No. MA24-0386 (10 May 2024)). These costs are clearly identifiable in the accounting records and linked exclusively to the activities of the assessed project (identified by code 900703), ensuring proper traceability and preventing double reimbursement.</p>	YES
<p>➤ whether the final recipient has confirmed that the same costs have not been double-financed from other sources (e.g., other EU funds or national programs), and whether controls have been carried out (e.g., SFOS cross-check) to ensure that the same costs (such as train purchases, design services, etc.) have not been declared for other EU funds or national financing during the same period and to the same extent (e.g., Cohesion Fund, CEF, REPowerEU, etc.).</p> <p>Explanation: The State Shared Service Centre performed double-financing checks based on the SFOS cost document checklist on 23 August 2023 and 30 May 2024, ensuring that the same costs were not declared for other EU funds or national financing during the same period and to the same extent (e.g., Cohesion Fund, CEF, REPowerEU, etc.). The risk of double financing for project costs has been adequately mitigated, and the implemented controls ensure that costs are correctly declared solely within the scope of this project.</p>	YES
<p>➤ whether the costs are recorded in the final recipient's accounting system or reflected in tax documents.</p> <p>Explanation: During the on-site procedure on 21 December 2025, the recording of project costs within the scope of the audit in the beneficiary's accounting software, the existence and approval of invoices, and the execution of payments were tested. The costs are recorded in the final beneficiary's accounting system or tax documents, and no deficiencies were identified.</p>	YES
<p>➤ (A) for the Ministry of Climate: whether the funding has been transferred through payments to the final recipients or to the responsible ministries;</p> <p>➤ (B) for the responsible ministries: whether the funding has been forwarded to the final recipients or to the State Shared Service Centre for making payments to the final recipients;</p> <p>➤ (C) for State Shared Service Centre: whether the funding has been disbursed to the final recipients based on supporting documents.</p> <p>Explanation: This is a project for which the State Shared Service Centre processes grant applications (C), makes payments for the supported activities or sets of activities partially or fully financed under the regulation, and performs oversight of the projects (see information on the audited costs). State Shared Service Centre has disbursed the funding to the final recipient for the costs within the scope of the audit.</p>	YES
<p>Overall Financial Accounting Aspects</p>	<p>Conclusion (YES / NO / N/A)</p>
<p>Auditor verified:</p>	
<p>➤ Whether the costs declared by the project applicant or the final recipient of the Modernisation Fund support are eligible in accordance with the conditions</p>	YES

<p>for granting the support and the funding decision, and whether the funded costs were foreseen in the application or have been accepted by the responsible ministry or the State Shared Service Centre (e.g., through a contract amendment, correspondence, or reporting).</p> <p>Explanation: The scope of the audit includes the costs of connection contracts related to transferring the building to district heating and district cooling, which are eligible under § 5(3) of Regulation No. 36 of the Minister of Public Administration, dated 05.08.2022, “Conditions and Procedures for the Use of the Modernisation Fund Support for Energy Efficiency Improvements in Central Government Buildings.” According to this provision, eligible costs for energy efficiency works include expenses for energy-saving measures listed in the regulation established under § 66(6) of the Building Code, as well as costs related to building reconstruction and partial demolition, together with investments inseparably linked to or required for these works, including those necessary to ensure indoor climate requirements. Other eligible costs include expenses for equipment and installations related to energy use or indoor climate and their installation, <u>costs of connecting to utilities necessary for the functioning of the building</u>, costs of renewable energy production equipment and their installation, and costs of design and construction supervision required for carrying out the works mentioned above etc.</p> <p>The application included, among other planned activities: transferring the building to district heating and district cooling; partial refurbishment of the heating system; transition from local cooling to district cooling together with reconstruction of equipment and pipelines.</p> <p>The project is implemented by AS Riigi Kinnisvara during the period from 31 May 2023 to 31 December 2027. The eligible cost of the project is €9,155,160. The budget includes: Construction (including supervision) €7,754,640 (84.70%) and design (including expertise) €1,400,520 (15.30%).</p> <p>The scope of the audit covers AS Utilitas Tallinn invoices No. MA23-0549 (17 July 2023) and No. MA24-0386 (10 May 2024) for the costs of connection agreements related to transferring to district heating and district cooling, payment orders, and connection agreements. All relevant supporting documents have been attached to the project by the final recipient.</p> <p>At the time of approval of the audit report, it is not possible to assess the achievement of the objectives set out in the application and financing documents (including the reduction of energy supplied to the building (MWh/year) and the reduction of greenhouse gas emissions (t CO₂ eq/year)). This assessment can be carried out after project completion. The final recipient is obliged to submit, via the Structural Funds Register, by no later than 31 December 2032, annual data for four full years following the completion of the reconstructed building regarding the achievement of project results on building energy consumption volumes (including energy savings), greenhouse gas emissions, and renewable energy production. The costs declared within the scope of the audit for AS Utilitas Tallinn invoices are eligible and comply with the financing decision and the conditions for granting aid. The financed costs correspond to the activities described in the application, and the State Shared Service Centre has accepted them as eligible and justified, confirming compliance with the financing decision and the conditions for granting aid.</p>	
<p>➤ Whether the amount and description of the costs correspond to the project budget and what was presented in the application.</p> <p>Explanation: AS Utilitas Tallinn invoice MA23-0549 with the description “Connection fee to the district cooling network, Part I, Lasnamäe St. 2, Tallinn. Basis: connection contract No. 23J010941, dated 10 July 2023, clauses 3.2 and 3.3.1” — with reference to the contract — and the amount correspond to the sum provided for in the project budget and the described activity. AS Utilitas Tallinn invoice MA24-0386 with the description “Connection fee, Lasnamäe St. 2. Basis: connection contract No. 24U012456, dated 9 May 2024, clauses 3.4 and 3.5” — with reference to the contract — and the amount correspond to the sum provided for in the project budget and the described activity. The invoices are relevant, justified, and recorded in the final beneficiary’s accounting. Original cost documents are available and allow verification of the cost’s link to the project, ensuring transparency and compliance with the budget. The amounts and descriptions are consistent with the project budget and the activities planned in the application, which guarantees transparency and traceability of costs.</p>	YES
<p>➤ Whether the costs were incurred and paid by the project applicant or the final recipient of the Modernisation Fund support, whether they are directly related to the project (e.g., invoices include project references and costs were made efficiently), and whether appropriate supporting documents (invoices, payment confirmations, contracts) have been provided.</p> <p>Explanation: The scope of the audit includes the costs of connection contracts related to transferring Lasnamäe 2 building to district heating and district cooling under AS Utilitas Tallinn invoices. The works underlying these invoices are carried out at the request of the project’s final recipient, and the invoices</p>	YES

<p>have been paid directly by the final recipient. The invoices issued to the final recipient include references to the building and the connection agreement, confirming the direct link between the costs and the project activities. The incurrence and payment of costs are consistent with the activities permitted under the project and ensure the proper attribution of costs to project implementation. The costs have been incurred economically and efficiently, in line with the project objectives and ensuring the optimal use of resources. All relevant supporting documents (invoices, payment orders, contracts) have been attached to the project by the final recipient.</p>	
<p>➤ Whether the costs were incurred within the eligible project period and do not exceed the eligibility timeframe. Explanation: The project eligibility period, according to the approval decision, was 31 May 2023 – 31 December 2027. A connection contract No. 23J010941 was concluded with AS Utilitas Tallinn on 10 July 2023 for connecting the building at Lasnamäe St. 2 to the district cooling network operated by Utilitas; a connection contract No. 24U012456 was concluded with AS Utilitas Tallinn on 9 May 2024 for connecting the office building at Lasnamäe St. 2 to the district heating network owned by AS Tallinna Soojus. The invoices covered by the audit scope — AS Utilitas Tallinn invoices No. MA23-0549 (17 July 2023) and No. MA24-0386 (10 May 2024) — fall within this period. The referenced evidence supports the confirmation that all verified costs were incurred during the eligible period.</p>	YES
<p>➤ Whether the actual support paid for eligible costs does not exceed the maximum support amount or rate specified in the funding decision, contract, or other applicable agreement. Explanation: The approved support rate in the funding decision dated 06 April 2023 (No. 11.2-54/23/569) is 100%. Within the scope of the audit, the disbursed support has been provided in accordance with the established support rate, and the maximum support amount (€9,155,160.00) has not been exceeded. The disbursed support is consistent with the support rate and maximum amount set out in the financing decision.</p>	YES
<p>➤ Whether the costs comply with applicable tax and social legislation Explanation: The invoices from AS Utilitas Tallinn included in the scope of the audit apply the VAT rate in force in Estonia in the year of issue (20% in 2023 and 22% in 2024) and have been prepared and submitted in compliance with applicable tax and social legislation. These invoices meet all legal requirements, and the payments were made by the final recipient in compliance with statutory obligations. The costs are consistent with applicable tax and social regulations, properly documented, and paid in accordance with the law.</p>	YES
<p>➤ Whether the cost description is clear and, based on the description, demonstrably linked to the project activity. Explanation: AS Utilitas Tallinn invoice MA23-0549 with the description “Connection fee to the district cooling network, Part I, Lasnamäe St. 2, Tallinn. Basis: connection contract No. 23J010941, dated 10 July 2023, clauses 3.2 and 3.3.1” — with reference to the contract — and the amount correspond to the sum provided for in the project budget and the described activity. AS Utilitas Tallinn invoice MA24-0386 with the description “Connection fee, Lasnamäe St. 2. Basis: connection contract No. 24U012456, dated 9 May 2024, clauses 3.4 and 3.5” — with reference to the contract — and the amount correspond to the sum provided for in the project budget and the described activity. The descriptions of the costs included in the scope of the audit are clear, understandable, and consistent with the project activities, enabling verification of the direct connection between the expense and the project’s objectives.</p>	YES
<p>➤ Whether the costs are, in the auditor’s opinion, reasonable, justified, and in line with the principles of sound financial management. Explanation: Within the scope of the audit, the following activities have been carried out under the project: ➤ A connection contract No. 23J010941 was concluded with AS Utilitas Tallinn on 10 July 2023 for connecting the existing building at Lasnamäe St. 2, to the district cooling network operated by Utilitas in accordance with the technical conditions issued by Utilitas, in the amount of €49,500 plus VAT (including readiness for cooling service at the connection point). ➤ A connection contract No. 24U012456 was concluded with AS Utilitas Tallinn on 9 May 2024 for connecting the existing office building at Lasnamäe St. 2, to the district heating network owned by AS Tallinna Soojus in the amount of €69,600 plus VAT (including design of the district heating pipeline up to the connection point and construction of the pipeline up to the connection point by no later than 1 September 2027). The invoices from AS Utilitas Tallinn included in the scope of the audit have been issued in accordance with these contracts. AS Utilitas Tallinn is the district</p>	YES

<p>heating network operator in Tallinn and the owner and service provider of the district cooling network. The connection is provided as their standard service, which includes developing the technical solution, constructing pipelines, and installing the connection point. RKAS AS does not commission separate construction works from a third party but purchases the connection service from the network operator.</p> <p>Tallinn City Council Regulation No. 9 of 18 May 2017 “Boundaries of the Tallinn district heating area, conditions and procedure for connecting to and disconnecting from the district heating network, general quality requirements for district heating and the network operator’s development obligation” (§ 2(3–4)) and the District Heating Act (§§ 10–12) stipulate that district heating connections are made through the network operator, who has the right to set connection conditions and fees. District cooling is not regulated by a separate law, but the service is based on the network operator’s infrastructure, with no alternative provider available. In the auditor’s opinion, the costs are reasonable, justified, and comply with the principles of sound financial management.</p>	
<p>➤ Whether the funding covers only costs that are directly related to the project and have actually been incurred (i.e., the work has been accepted, the service delivered, or the goods received and taken into possession).</p> <p>Explanation: The invoices from AS Utilitas Tallinn included in the scope of the audit are based on contracts. The beneficiary has paid the invoices in full, confirming that the expenditure has actually been incurred. The financing covers only costs related to the project.</p>	YES
<p>➤ Whether technical and administrative costs (e.g., audit, reporting, site supervision) are reasonable and justified in the context of the project’s scope and objectives.</p> <p>Explanation: Technical and administrative costs were not included within the scope of this audit for this project; therefore, their reasonableness and justification were not assessed.</p>	N/A
<p>➤ Whether the cost documents and contracts are consistent (including invoices, quantities, and delivered services/works).</p> <p>Explanation: On 10 July 2023, Riigi Kinnisvara AS concluded connection contract No. 23J010941 with AS Utilitas Tallinn for connecting the existing building at Lasnamäe St. 2 to the district cooling network operated by Utilitas, in accordance with the technical conditions issued by Utilitas, in the amount of €49,500 plus VAT (including readiness for cooling service at the connection point).</p> <p>On 9 May 2024, Riigi Kinnisvara AS concluded connection contract No. 24U012456 with AS Utilitas Tallinn for connecting the existing office building at Lasnamäe St. 2 to the district heating network owned by AS Tallinna Soojus, in the amount of €69,600 plus VAT (including design of the district heating pipeline up to the connection point and construction of the pipeline up to the connection point by no later than 1 September 2027).</p> <p>Within the scope of the audit, two invoices were reviewed (No. MA23-0549 (17 July 2023) and No. MA24-0386 (10 May 2024)). The documentation — including contracts, invoices, and payment orders — is fully consistent, and no discrepancies were identified between the contracts and invoices. This ensures traceability of costs and compliance with project requirements.</p>	YES
Own contribution	Conclusion (YES / NO / N/A)
Auditor verified:	
<p>➤ Whether the final recipient of the support has provided co-financing in monetary form in accordance with the funding decision (except in cases where the project was implemented on a zero-cost basis).</p> <p>Explanation: The invoices from AS Utilitas Tallinn, which fall within the audit scope, have been fully paid by the final recipient. For these costs, the grant in the amount of €74550,00 has been disbursed to Riigi Kinnisvara AS in accordance with the approval decision (support rate: 100% of eligible costs).</p>	YES
<p>➤ Whether the co-financing is correctly recorded in the beneficiary’s accounting system and relevant reports.</p> <p>Explanation: Support rate was 100% of eligible costs. The support portion and the co-financing share are clearly distinguished using a project-specific code and are reflected in the financial accounting system in compliance with the Public Sector Financial Accounting and Reporting Guidelines, which require accrual-based accounting and project-level segregation. Accounting entries and extracts can be provided if needed to verify the co-financing. Based on the audit review, financing is correctly recorded, identifiable by project code, and complies with applicable accounting principles and reporting</p>	YES

requirements.	
Value Added Tax (VAT)	Conclusion (YES / NO / N/A)
Auditor verified:	
<p>➤ Whether VAT is eligible for the beneficiary,</p> <p>a) it is permitted under the conditions for granting the support, and</p> <p>b) the beneficiary has no right to deduct or reclaim the VAT paid as input VAT in accordance with applicable VAT regulations.</p> <p>Explanation: VAT is not an eligible cost in this project. Riigi Kinnisvara AS (registration code 10788733) has been a VAT payer since 01.09.2001 (VAT number EE100708707), as confirmed on 24.12.2025 through a check in the Estonian Tax and Customs Board's VAT register (https://apps.emta.ee/saqu/public/kmkrnr). The conditions for granting support stipulate that VAT is eligible only if it is non-recoverable for the beneficiary. In this case, the beneficiary has the right to deduct input VAT; therefore, VAT is not considered an eligible cost in the project. Within the scope of the audit, VAT has not been reimbursed from the grant funds. VAT handling complies with the support conditions and applicable tax legislation.</p>	YES
<p>➤ Have only VAT amounts that are non-refundable and non-recoverable been declared.</p> <p>Explanation: VAT is not an eligible cost in this project. Riigi Kinnisvara AS (registration code 10788733) has been a VAT payer since 01.09.2001 (VAT number EE100708707), as confirmed on 24.12.2025 through a check in the Estonian Tax and Customs Board's VAT register (https://apps.emta.ee/saqu/public/kmkrnr). The conditions for granting support stipulate that VAT is eligible only if it is non-recoverable for the beneficiary. In this case, the beneficiary has the right to deduct input VAT; therefore, VAT is not considered an eligible cost in the project. Within the scope of the audit, VAT has not been reimbursed from the grant funds. VAT handling complies with the support conditions and applicable tax legislation.</p>	YES
<p>➤ Are there supporting documents (e.g., confirmation from the Estonian Tax and Customs Board) indicating that VAT is non-refundable or non-deductible? If such a document is not available, the auditor will add a note to the working papers stating that no possibility of refund was identified during the review.</p> <p>Explanation: VAT is not an eligible cost in this project. Riigi Kinnisvara AS (registration code 10788733) has been a VAT payer since 01.09.2001 (VAT number EE100708707), as confirmed on 24.12.2025 through a check in the Estonian Tax and Customs Board's VAT register (https://apps.emta.ee/saqu/public/kmkrnr). The conditions for granting support stipulate that VAT is eligible only if it is non-recoverable for the beneficiary. In this case, the beneficiary has the right to deduct input VAT; therefore, VAT is not considered an eligible cost in the project. Within the scope of the audit, VAT has not been reimbursed from the grant funds. VAT handling complies with the support conditions and applicable tax legislation.</p>	YES
<p>➤ Have public sector beneficiaries refrained from declaring VAT for activities falling under the exercise of sovereign powers? If VAT has been declared for activities outside the scope of sovereign powers, has the beneficiary provided confirmation from the competent state authority.</p> <p>Explanation: VAT is not an eligible cost in this project. Riigi Kinnisvara AS (registration code 10788733) has been a VAT payer since 01.09.2001 (VAT number EE100708707), as confirmed on 24.12.2025 through a check in the Estonian Tax and Customs Board's VAT register (https://apps.emta.ee/saqu/public/kmkrnr). The conditions for granting support stipulate that VAT is eligible only if it is non-recoverable for the beneficiary. In this case, the beneficiary has the right to deduct input VAT; therefore, VAT is not considered an eligible cost in the project. Within the scope of the audit, VAT has not been reimbursed from the grant funds. VAT handling complies with the support conditions and applicable tax legislation.</p>	YES
Implementation of Procurement and Purchasing	Conclusion (YES / NO / N/A)
Auditor verified:	
<p>➤ Were the principles of transparency, proportionality, and equal treatment of tenderers observed during the procurement or purchasing procedure;</p> <p>➤ Have the requirements of the Public Procurement Act been complied with in the case of public sector beneficiaries;</p> <p>➤ Were the costs incurred under the project above the thresholds set in the Public Procurement Act, and if so, was an appropriate procurement procedure conducted in accordance with the Act;</p>	N/A

- Did the successful tenderer and its bid comply with the procurement notice and the tender documents;
- Was the procurement procedure transparent, justified, and non-discriminatory;
- Was the contract concluded with the tenderer offering the best price-quality ratio or the lowest price, in accordance with the evaluation criteria set out in the tender documents;
- Was the contract concluded under conditions consistent with the tender and the procurement documents;
- Was the procurement contract concluded without a conflict of interest, and is the contracting partner not a related party;
- If a framework agreement was used, was it concluded in compliance with the principles of transparency and best price-quality ratio;
- Is all procurement documentation (including notices, minutes, quotations, contracts, etc.) available, complete, and auditable;
- Have similar or functionally related purchases not been artificially split to avoid the application of procurement or purchasing procedures;
- Have any modifications been made to the project, and if so, were they carried out in compliance with the Public Procurement Act and the grant conditions.

Explanation: Within the scope of the audit, no procurement procedures were carried out; instead, the following activities were implemented under the project:

- On 10 July 2023, Riigi Kinnisvara AS concluded connection contract No. 23J010941 with AS Utilitas Tallinn for connecting the existing building at Lasnamäe St. 2 to the district cooling network operated by Utilitas in accordance with the technical conditions issued by Utilitas, in the amount of €49,500 plus VAT (including readiness for cooling service at the connection point).
- On 9 May 2024, Riigi Kinnisvara AS concluded connection contract No. 24U012456 with AS Utilitas Tallinn for connecting the existing office building at Lasnamäe St. 2 to the district heating network owned by AS Tallinna Soojus, in the amount of €69,600 plus VAT (including design of the district heating pipeline up to the connection point and construction of the pipeline up to the connection point by no later than 1 September 2027).

The invoices from AS Utilitas Tallinn included in the scope of the audit have been issued in accordance with these contracts. AS Utilitas Tallinn is the district heating network operator in Tallinn and the owner and service provider of the district cooling network in Tallinn. The connection is made as their standard service, which includes the development of the technical solution, construction of pipelines, and installation of the connection point. RKAS AS does not order separate construction works from a third party but purchases the connection service from the network operator.

Tallinn City Council Regulation No. 9 of 18 May 2017 on the boundaries of the district heating area of Tallinn, the conditions and procedure for connecting to and disconnecting from the district heating network, general quality requirements for district heating, and the network operator's development obligation – Riigi Teataja (§ 2(3–4)) and the District Heating Act (KKütS §§ 10–12) stipulate that the connection is made through the network operator and that the network operator has the right to set the connection conditions and fees. District cooling is not regulated by a separate law, but the service is based on the network operator's infrastructure, for which there is no alternative provider.

A public procurement refers to the purchase of goods, the ordering of services, obtaining a design concept, commissioning construction works, or concluding a concession contract. The subject of a connection agreement is generally not a good, a service, construction work, or a concession; therefore, such an agreement does not constitute a procurement contract and is not subject to the Public Procurement Act.

Riigi Kinnisvara AS additionally explained 31.12.2025: The contract No 24U012456 was concluded with AS Utilitas Tallinn, which at the time (now removed from the register) was a district heating company and, in the context of the Public Procurement Act, qualifies as a utility sector contracting entity. Therefore, Riigi Kinnisvara AS commissioned the construction works in question from another contracting entity. The fact that activities related to district heating are considered part of the utility sector derives from §146 of the Public Procurement Act, and AS Utilitas Tallinn is explicitly listed as a district heating company even in the latest commented edition of the Act. The value of the concluded contract does not exceed the simplified procurement threshold for the utility sector (€300,000, RHS §14(1)(3)); therefore, this is also a procurement below the simplified threshold, meaning that a public procurement procedure under the Act was not required. The contract was concluded with AS Utilitas Tallinn, which could have carried out an off-register tender or price inquiry; however, in our view, they had no obligation to do so under the Act.

<p>Riigi Kinnisvara AS did not conduct a public procurement procedure under the Public Procurement Act for concluding the contract No 23J010941, as both the initial and actual contract value remained below the simplified procurement threshold (€60,000 excluding VAT, RHS §14(1)(2)). The contract essentially involved commissioning construction works. The agreement was concluded with AS Utilitas Tallinn, which could have carried out an off-register tender or price inquiry; however, in our view, similar to Riigi Kinnisvara AS, they had no obligation to do so under the Act.</p> <p>The auditor agrees with Riigi Kinnisvara AS's explanations. Therefore, within the scope of the audit, the final recipient's activities comply with the project description, the agreement, and the conditions of the funding documents, and ensure the implementation, documentation, and verifiability of the activities arising from the purpose of the funding. No violations or unfair treatment were identified. Therefore, the invoices reviewed within the scope of the audit are considered justified and eligible.</p>	
<p>Personnel-related costs and other costs, including administrative costs for implementing State Shared Services Centre measures</p> <p>The auditor verifies personnel costs based on a sample (10% of the total amount). Other costs are checked based on the following approach: Full review if there are fewer than 10 cost lines; If there are more than 10 cost lines, the auditor reviews either 10 lines or 10% of the cost lines, whichever is greater.</p>	<p>Conclusion (YES / NO / N/A)</p>
<ul style="list-style-type: none"> ➤ What methodology is used for determining personnel costs and linking them to the funding; ➤ Does the calculation of personnel costs comply with the applicable grant conditions and permitted accounting principles; ➤ Is the link between personnel costs and the project sufficiently evidenced (including project-related tasks, working time, and workload proportion); ➤ Are relevant documents such as employment contracts, job descriptions, or task allocations available to demonstrate the employees' connection to funded activities; ➤ Is the portion of working time reimbursed from the funding correctly calculated and documented; ➤ Are tasks not related to the funding correctly separated; ➤ Are travel expenses and daily allowances correctly defined and linked to the project, in accordance with the beneficiary's internal rules and applicable legislation; ➤ Do training costs (if any) comply with applicable legislation and are they justified in the context of the project objectives. <p>Explanation: No personnel costs, travel expenses, training costs, or similar expenses occurred in the final recipient's project during the audit scope period (2023 and 2024).</p>	<p>N/A</p>
<ul style="list-style-type: none"> ➤ What methodology is used for determining other costs and linking them to the funding; ➤ Are "other costs" (including office supplies, software, administrative expenses, etc.) eligible and directly related to project implementation; ➤ Are the costs correctly identified and attributed to the project; ➤ Are the items listed on invoices not recorded as fixed assets, and is the accounting treatment consistent with the beneficiary's usual accounting practices; ➤ Do other costs comply with internal cost-handling rules and are they proportionate to the scope and objectives of the project; ➤ For procurements classified under "other costs," have procurement or purchasing procedures been followed (see section "Procurement and Purchasing"). <p>Explanation: No other costs were incurred in the final recipient's project during the audit scope period (2023 and 2024).</p>	<p>N/A</p>
<p>Document Retention</p> <p>Auditor verified:</p>	<p>Conclusion (YES / NO / N/A)</p>
<ul style="list-style-type: none"> ➤ Has the final recipient retained all cost documentation and project reports in a manner that ensures a clear and traceable audit trail for activities and expenditures. <p>Explanation: The final beneficiary has retained all cost documentation and project reports in a manner that ensures a clear and traceable audit trail. During the on-site inspection on 22 December 2025, all project documents—including invoices, payment orders, contracts, council decisions, and reports—were easily accessible. The link between the documents and project activities and costs is clearly traceable, and supporting documentation exists for each expense,</p>	<p>YES</p>

<p>enabling full verification and auditability.</p> <p>Financial accounting is carried out using the SAP financial software, and the project code for the office building at Lasnamäe 2 is 900703. Accounting documents are stored in the IT systems Tuumik and SAP at RKAS AS for at least 7 years. Retention periods are defined in the document list (tab Financial_Accounting, series code FIR-33).</p> <p>Invoices go through an approval workflow in Tuumik, where they are approved in accordance with RKAS AS internal accounting rules (i.e., first approved by the respective project manager, second by the project director, and third, if necessary, by the development director for invoices starting from EUR 3,000 excluding VAT). The project manager links the invoice to the work handover and acceptance certificate. Invoices are assigned the project code and cost centers. Entries are transferred from Tuumik to SAP, where the payment file is generated. The storage location for invoices is Tuumik. Project cost documents can be identified based on project code 900703. Payment documents include the name of the payee institution and the invoice number.</p> <p>Personnel costs were not included in the audit scope; however, in addition to the above, the personnel management software Persona is used, where timesheets are completed (employees associated with the project record their working time based on the project code, which forms the basis for payroll and operating costs).</p> <p>Procurement-related documents are stored in the RKAS AS digital procurement environment, and construction-related documentation is stored in the RKAS project digital environment.</p> <p>In the auditor's opinion, the document retention and traceability requirements have been met, and the systems ensure cost control and transparency.</p>	
<p>➤ Has it been ensured that the final recipient retains all documents and data related to the grant, including information on payments and expenditures, for at least five years from the date of the last payment of the project or measure (as required by Article 16(5) of Regulation (EU) 2020/1001)</p> <p>Explanation: Retention of documents for at least five years from the last project payment is ensured. Accounting documents are stored in the IT systems Tuumik and SAP at RKAS AS for at least 7 years. Retention periods are defined in the document list (tab Financial_Accounting, series code FIR-33), as approved by the Management Board decision of 23.10.2025 (minutes No. YLD-3/2025). According to the auditor's assessment, the document retention obligation has been fulfilled and complies with EU and national requirements. This obligation is also known to employees involved in the project.</p>	YES
<p>Communication and Visibility (Article 17)</p>	Conclusion
<p>Auditor verified:</p>	(YES / NO / N/A)
<p>➤ Has the final recipient of the support complied with the European Union's communication and visibility requirements (including proper use of the EU and Modernisation Fund logos, clear indication of the amount and origin of the support; implementation of communication activities, such as notice boards in strategic locations visible to the public and other information aimed at the general public);</p> <ul style="list-style-type: none"> ○ If the final recipient is required to install notice boards on sites and facilities, the presence of such boards is verified, along with proper references to EU and Modernisation Fund co-financing and compliance of the visual identity with the EU and the grant conditions guidelines (according to the grant conditions, §19: During construction works related to the project, an information board must be placed in the project area, which must include at least: the project title; the contractor; the completion deadline; additional wording: "The reconstruction is supported by the Modernisation Fund"; the logo of the ministry responsible for the sector and the State Shared Service Centre). <p>Explanation: Construction works have not started as of the date of this report; therefore, the installation of the information board cannot be assessed.</p> <ul style="list-style-type: none"> ○ If the final recipient has used informational materials (e.g., printed publications, websites, videos) when utilizing the funding or presenting projects and their results, it is verified whether these materials include proper references to EU and Modernisation Fund co-financing and whether the visual identity complies with the EU and grant conditions guidelines; ○ If information on the use of funding has been published in the final recipient's public communications (e.g., on its website, in annual reports, press releases, or other sources aimed at the general public), the presence of proper references to EU and Modernisation Fund co-financing is assessed, 	N/A

<p>along with compliance of the visual identity with the EU and grant conditions guidelines, and the accuracy and timeliness of the information (e.g., funding amounts, purpose of the support, project period, etc.);</p> <ul style="list-style-type: none"> ○ If the final recipient has informed the public about receiving the support (e.g., when presenting projects and their results), it is assessed whether appropriate, coherent, effective, and proportionate information has been provided to different target groups, including the media and the general public. <p>Explanation: Construction works have not started as of the date of this report; therefore, the installation of the information board cannot be assessed.</p>	
<p>➤ Is the information provided up to date and free from substantive inaccuracies or omissions that could affect the transparency of the support and public awareness of the funding source.</p> <p>Explanation: During the audit, no evidence was found that the information presented in relation to the funding received from the Modernisation Fund under the project was inaccurate, incomplete, or in any way detrimental to the transparency of the support or public awareness of its origin.</p>	YES